



Navigating Acquisition Financing No Matter the Times

By Greg Buscone, Executive Vice President and Senior Commercial Banking Officer, and Greg Spurr, Senior Vice President, Eastern Bank

Traditionally, banks and some non-bank lenders have provided the majority of debt capital used by security alarm companies to make acquisitions. But the availability of this debt capital has fluctuated over the last few years, especially as the number of active lenders in the market has shifted. So what does this mean for your company and decision-making? A few perspectives follow below.

A confluence of factors

Typically, the more active number of lenders, the greater access to lines of credit and term loans, creating more robust acquisition activity. However, the banking market for security alarm companies declined over the past few years as several large and active lenders exited the market. This drove some notable outcomes:

- Although many companies refinanced with other industry lenders, the amount of debt available to security alarm companies for most of 2020 decreased.
- The lenders who remained became more conservative with the amount of leverage (Debt/RMR) they would provide.
- This combination had a negative impact on alarm company valuations.
- At the same time, the Covid-19 pandemic caused banks to focus on assistance with Paycheck Protection Program (PPP) loans to stabilize and sustain companies, rather than loans for acquisitions.

Ebbs and flows

A significant increase in M&A activity happened in 2021, when security alarm companies refocused on acquisitions and the lending market improved as new lenders entered the space. In fact, according to Barnes Associates, the amount for RMR that was acquired in 2021 grew 17% from 2020 and the average RMR multiple increased 32% (excluding dealer programs where RMR multiples were unchanged). However,

acquisition activity during the first half of 2022 declined compared to Q3 and Q4 of 2021. Imperial Capital cites the impact of turbulent public equity markets and lower valuations as a cause. In addition, higher interest rates have increased the cost of debt capital, making acquisitions more expensive.

It should be noted that some segments of the security alarm industry have performed especially well during these challenging times, including commercial security and fire alarm companies and wholesale monitoring companies.

After seeing the resiliency of the security alarm industry during the pandemic, and how quickly security alarm companies rebounded in 2021, financial buyers have returned. Commercial security and fire alarm companies have seen the most new investment. According to Imperial Capital, “at least four new private equity funds made their fire platforms visible [in 2021/2022] for fire integration and suppression consolidation plays.” Buyers are now looking for additional acquisitions and paying higher prices.

Wholesale monitoring companies have benefited from a shifting landscape as alarm companies of various scale are exiting the monitoring business. Fire alarm monitoring is mandated by local building codes, and many businesses are updating or adding new services such as

Mark Sandler of Security Performance Partners recently commented that 2022 is “the best time in recent memory to be a seller of a commercial security alarm company.”

video monitoring and/or access control. However, many residential alarm companies continue to face multiple challenges, including 3G upgrades and increased competition from DIY and new entrants such as RING. The exceptions are residential alarm companies serving high end customers or offering smart home services in addition to security.

The combination of plentiful senior debt, along with more buyers now than sellers, has created a sellers-market, especially for commercial security alarm companies. In fact, Mark Sandler of Security Performance Partners recently commented that 2022 is “the best time in recent memory to be a seller of a commercial security alarm company.”

He noted that residential alarm companies with traditional (carriage trade) customers in a concentrated geographic area will be attractive to multiple buyers. Joe Thompson, SVP at Barnes Associates, added that security alarm companies looking for debt capital will be more successful if they have good operating metrics, including attrition, creation multiples and operating margins.

What’s ahead

Preparation is always key and many resources are available to help navigate market changes. The rising interest rate environment and a potential recession could impact acquisition activity. In this scenario, the cost of senior debt capital could continue to increase, and the recession could lower expected revenue growth. Lenders could also become more cautious and conservative.

However, security alarm companies working with dedicated industry lenders who are experienced with economic fluctuations, and who understand the market value of security alarm companies, will be well positioned to take advantage of acquisition opportunities no matter when they appear. 

